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SUBJECT: COLOMBIA'S 2010 BUDGET: SOCIAL PROTECTION AND SECURITY STILL  
TOP THE AGENDA

REF: 09 BOGOTA 3267

¶1. (U) Summary. The GOC budget for 2010 (US\$ 78 billion) reflects a seven percent increase from 2009, with increases in defense and security, education, transportation, agriculture, social programs, and the Congress. For the first time, the defense and security budget surpassed education, in part due to military pension payments and medical services. Finance Minister Zuluaga said, however, that the budget will maintain its social component; approximately 47 percent of the budget is allocated for poverty reduction measures and social programs. Critics of the budget note the baseline economic figures -- such as the 2010 GDP growth figures and exchange rate forecasts -- are overly optimistic and the increased spending will cause the GOC to go deeper into debt. End Summary.

¶2. (U) On October 20, the GOC approved its 2010 budget, totaling \$148 billion pesos (roughly US\$ 78 billion). The budget, titled "Investment Sustainability in the Middle of the Crisis," increased by 15 percent government expenditures, which represent 56 percent of the entire budget. Transfers to state and municipal governments make up 42 percent of the budget, personnel costs 11 percent, and government operating expenses 3 percent. The budget allocates remaining resources to public sector investment (17 percent) and debt service (27 percent).

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Protect the Public and Stimulate Private Investment  
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¶3. (U) In line with President Uribe's campaign to reinforce security gains, the defense budget rose to roughly US\$ 11 billion, a 10.5 percent increase from last year. For the first time, the defense budget surpassed funding for education by about 2.6 percent. Although defense and security represents 14.2 percent of the national budget, a significant portion of the defense budget goes to pension payments, medical services, the Defense Ministry's airline and hotel enterprises, and investments/procurement.

¶4. (SBU) The GOC also increased budgets for government social

programs, such as Accion Social -- the presidential agency that coordinates assistance for Internally Displaced Persons (IDP). The 2010 budget allocates approximately US\$ 685 million for IDP assistance, a 15 percent increase over the 2009 budget. The budget supports the GOC's new policies for integrated attention to IDPs, including additional support for emergency humanitarian assistance, health, education, housing, land, and income generation. The increased funding also supports prevention and protection activities, as well as the implementation of differentiated assistance and protection programs for vulnerable IDP populations, such as women, children, disabled, indigenous, and Afro-Colombians, (see reftel).

15. (U) Colombia seeks to increase private investment through a series of major public sector investments, totaling US\$ 12.5 billion. A majority of these investments will be directed toward the final consolidation of the Democratic Security policy, highways and tunnels, communications equipment (e.g. submarine cables and a satellite), mass transportation, and social programs, such as Families in Action, potable water and basic sanitation equipment, and urban housing to include subsidies for displaced persons.

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Balanced Budget or Going Deeper Into Debt

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16. (SBU) The GOC expects to cover its expenditures through taxes (48 percent), debt financing (38 percent), government funds (6 percent) and the sale of the government's stake in state-owned enterprises (8 percent). The fiscal deficit, however, is expected to rise from 3.7 percent of GDP in 2009 to 4.3 percent in 2010. The Finance Ministry also anticipates public sector debt to increase to 36 percent of GDP in 2010 and continue that trend, reaching close to 41 percent in 2014. The Ministry attributes the trend to increases in government expenditures, particularly in infrastructure, defense and security, and social programs.

17. (SBU) Former Central Bank co-director Salomon Kalmanovitz told Econoff that the GOC budget is worrisome because it reduces public sector investment by roughly US\$ 2 billion from 2009, which could lead to economic stagnation. Sergio Clavijo, President of Colombia's National Association of Financial Institutions and former co-director of the Central Bank, told us the Ministry of Finance utilizes an overly optimistic exchange rate (\$2,365 pesos to the dollar; currently it's at \$1,981) and an estimated 2.5 percent GDP growth in 2010 to base its revenue streams. Clavijo predicts that budget revenues will be less than expected, forcing the fiscal deficit to rise above the GOC-projected 4.3 percent of GDP.

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